

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 001338

SIPDIS

E.O. 12958: DECL: 08/06/2013

TAGS: [EPET](#) [PINS](#) [ASEC](#) [PGOV](#) [NI](#)

SUBJECT: NIGERIA: RESTARTING OIL PRODUCTION IN WARRI

REF: ABUJA 1333

Classified by Charge d'Affaires, a.i. Dawn M. Liberi; reasons 1.5 (b) and (d).

1.(C) Summary: Into its fifth month, the crisis in Warri probably has cost the Government of Nigeria several hundred million U.S. dollars in lost revenue and continues to truncate the country's oil production by almost 20 percent. Despite this serious diminution and likely eager to return to full production, the companies have indicated that they may be willing to wait for the GON to take the difficult but necessary steps to establish control over the area. End summary.

2.(C) After the March 2003 outbreak of violence around Warri, Chevron and Shell ceased production both on-shore and off-shore in the area. This cut over 800,000 barrels per day (bpd) or roughly 40 percent of Nigeria's production. In mid-April, both companies resumed offshore production, reducing the loss to 15-20 percent. To date, on-shore facilities remain closed. Company security officers deem the environment not secure enough to resume operations.

3.(C) Over the past month, Delta State Governor Ibori has traveled throughout this part of his state visiting closed oil installations and talking with community leaders and armed militants of the Federated Niger Delta Ijaw Communities (FNDIC). After his tour to dulcify the area, Ibori claimed the environment was safe enough for the companies to return and resume production. He will likely renew that claim once the current round of fighting subsides. In a mid-July meeting, Ibori had told the CRO that he is confident the local communities (and by inference, the Ijaw militants) will allow the companies to resume operations with the protection of federal troops.

4. (C) Ibori's efforts notwithstanding, the companies insist that armed federal security personnel be stationed at the reopened oil installations in sufficient strength to deter or repel attacks by armed militants. However, the militants like their new found autonomy and are opposed to any troop deployments. A confrontation is likely should the military deploy more aggressively. This probability leads some company security officials to call for a well-planned military sweep through the area. (Note: see reftel report of President Obasanjo's August 6 warning of a possible imminent security operation. End Note.)

SHELL'S FALSE START

5.(C) According to Shell's Coordinator for Security Mike Achu, Shell attempted to reopen one flow station -- Jones Creek, in Warri North LGA -- on/about July 25 but ceased after only a few days. Achu claims that the deployment of some 30 Nigerian army troops to the flow station -- essential for the security of Shell staff at the facility -- had not been fully coordinated with military headquarters in Abuja and the local army commander pulled them back to barracks in Effurun. Another industry source claims that Shell had attempted to negotiate with the militants through the peace efforts of Delta Governor Ibori. The FNDIC is willing to allow the flow station to reopen but, as noted previously, it is against soldiers deployed in areas it claims to control -- a detail which spelled the doom of the attempted restart of the facility.

CHEVRON SEES A SILVER LINING

6.(C) During a July 30 meeting at Chevron's Headquarters, CRO and ECONOFF asked the company's senior coordinator for security, Hamish MacDonald, for an assessment of Warri. MacDonald characterized the ongoing stalemate between the Ijaw militants and the GON as an opportunity for Chevron to

change its approach to security and community relations. A cycle of extortion had been allowed to develop, fed by oil company efforts to win the support of local communities through assistance, generous hiring of locals and even outright payoffs. This must stop, declared Hamish; rule of law must be established in its place. He pointed to the deployment of a large-scale military force to pacify the area now controlled by Ijaw militants as the first step in this strategy. Only after the area is secured by federal government forces should Chevron resume production. Anything less would leave the company vulnerable to extortion attempts.

7.(C) MacDonald claimed that Chevron is prepared to take the tough decision of foregoing opportunities to restart production in the near-term in favor of waiting for a durable resolution of the security crisis. Noting that the GON is absorbing the far greater cost of the reduction (as the GON would normally receive an estimated 80 percent of the revenue) Chevron hopes that Shell will join forces to press the GON to assume its responsibility as security provider for the oil producing areas.

Confusing Signals from a Confused Government

8.(C) Thanks largely to efforts by Shell to publicly highlight the large-scale theft of oil, President Obasanjo and his security team have paid increased attention to this loss of oil. The GON's recent intense focus on oil theft, may have overshadowed the more serious security threat presented by inter-ethnic conflict in Warri. Some observers suggest this reflects general confusion over how to proceed or the GON's lack of good intelligence on the militancy threat now facing it. The Presidency has yet to produce a comprehensive strategy for dealing with the Warri security crisis that would bring the oil in that region back on line. Instead, the President appears to be directing a military deployment to confront the armed militants in the Warri swamps. (see refetl) MacDonald, who attended the Chevron MD's July 16 meeting with President Obasanjo, claims that the President has committed \$50-100 million in NNPC "matching funds" for the purchase of river boats and other equipment needed by the Army and Navy to take carry out an operation in Warri. (Note: According to industry sources, the cost of this \$100 million worth of military procurement will ultimately be borne by NNPC, Shell and Chevron in accordance with their joint venture capital funding formula. End note)

Comment

9.(C) The renewed fighting in the Warri LGAs has sidelined attempts to negotiate the companies' resumption of operations in the area, but these efforts will resume with the next lull in the fighting. Shell and Chevron have largely resisted this federal and Delta State government pressure to return to the Warri swamps. Citing adverse security conditions, they have also declared "force majeure," releasing them of production commitments under joint venture agreements with the GON. The companies seem able to absorb the lost proceeds of Warri oil production. However, we doubt the GON can afford this luxury. The companies may resist a restoration of the status quo ante and insist that the GON establish its writ throughout the region before the companies deploy their human and material resources.

10.(C) The companies are right to place responsibility for security squarely on the federal government's doorstep. The GON must tackle what amounts to a very expensive and public usurpation of its authority in the Warri area. This will likely require a policy action by the GON. Once the immediate security challenge is handled, the GON cannot return to its posture of sustained neglect of the Delta. A lasting solution will require a major GON commitment of security and social resources. Anything less will allow the Warri crisis to worsen and spread to other areas of the Niger Delta, where would-be-militants are keenly watching the efforts of the FNDIC in Warri. In the long-run, both Nigerian and U.S. strategic interests would suffer.

LIBERI